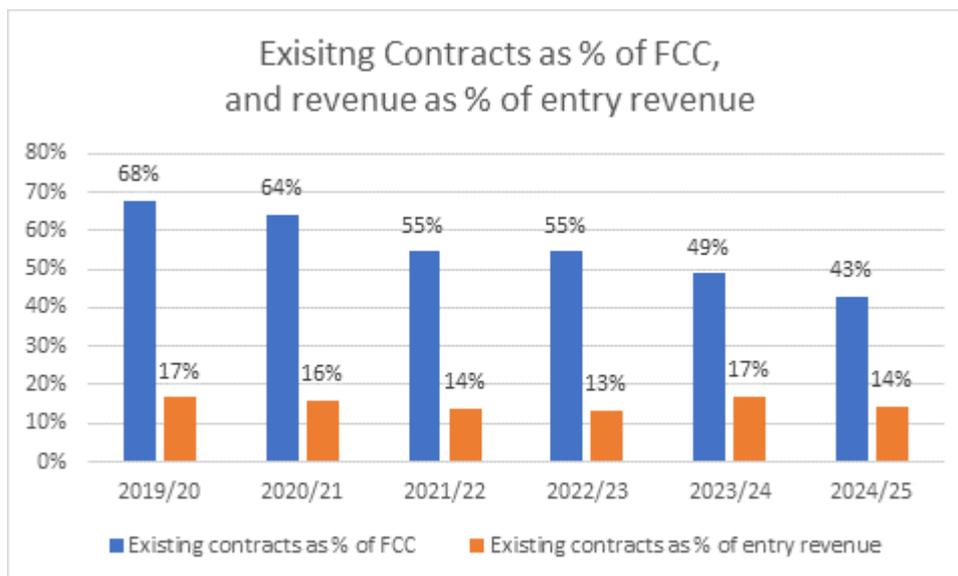


Energy UK – Workgroup Report Comments for Consideration

Comments against all proposals

The workgroup noted that excluding Existing Contract revenue and volume from the methodology prior to the determination of reference prices leads to a significant difference in the price paid by Existing Capacity holders and parties buying capacity after 6th April 2017. This could have a detrimental impact on competition between these parties and create a barrier to entry. In gas year 2020/21 existing contracts account for 64% of entry FCC but only 16% of entry revenue. This results in the average price for new capacity purchases at beach terminals being 10x higher than the average price paid for existing capacity. (see analysis provided by Vermillion). The impact is slightly less extreme for the PS methodology on average.



Workgroup also noted that no proposals consider a different treatment of Existing Contracts to help mitigate this effect.

May also want to consider the Baringa analysis page 6

.... A useful message from our modelling results is that levying higher charges on marginal supplies can have a significant impact on wholesale gas prices and therefore on consumer welfare.